Business Briefs

International Investment

Japan rates 'stability' of developing nations

The World Economic Information Service (WEIS) in Tokyo has declared Bangladesh the least "stabilized" developing nation in terms of country risk for corporate investment in a survey report of 30 developing nations. Iran, Pakistan, Argentina, and Peru were rated the next worst risks by the WEIS, an affiliate of the Ministry of International Trade and Industry, according to JIJI press. WEIS released the report Oct. 26.

The destruction of industrial capacity by the burgeoning Latin American debt was demonstrated by the dropping of Venezuela this year from 5th to 25th in a list of "stabilized" countries last year. Peru, which was ranked 19th last year, was ranked 26th in the current report, which was compiled during July and August.

Singapore, followed by Saudi Arabia and Malaysia, was given the highest rating. Mexico, which has complied with IMF conditionalities for a $8 billion loan package, was ranked the fourth most stable nation.

Financial Policy

Conference demands 'equity' in Third World

The followup conference to September's Geneva World Economic conference on international debt was held in London the week of Oct. 24. Discussion focused on the scheme proposed by Henry Kissinger and associates at an August conference in Vail, Colorado, demanding that indebted developing sector nations be forced to give over "equity" in their resources and state corporations to foreign creditors.

Speaking in London, Mont Pelerin Society and Heritage Foundation economist Allan Meltzer of Pittsburgh called for "creditors to take over the productive assets of country borrowers and convert their debt claims into equity," according to the Oct. 28 *Journal of Commerce*. Meltzer called for the equity stocks to be marketable to third parties in international markets.

Meltzer claimed he opposed the bill now before the United States Congress that would increase the U.S. contribution to the IMF, favoring instead "free market" methods.

According to the *Journal of Commerce* report, Melzter was supported at the conference by the Thatcher government. British Chancellor of the Exchequer Nigel Lawson and Bank of England Governor Leigh-Pemberton called for solving the developing sector debt crisis by "more private direct investment."

"The lesson of excessive past reliance on short-term bank lending must be learned," Leigh-Pemberton stated in a speech. Lawson called on the Third World to dismantle exchange controls against foreign investors, starting with Commonwealth member nations.

When asked if his equity scheme wasn't impractical, Meltzer pointed out that Brazil and Yugoslavia both allow private investment in state-owned enterprises.

Group of 10

Bank of Italy for IMF ascendancy

The former Group of 10, which now includes Switzerland, has begun a series of meetings at the OECD in Paris to discuss the issues of currency and debt, with Bank of Italy's Lamberto Dini setting the agenda.

Dini has proposed that, to ensure the dollar is "more stably" linked to the European currencies, the IMF be given "more influence over the economic policies" of the OECD to enforce joint austerity, according to a report in the *New York Times* on Oct. 27. Dini noted that this will also contract international lending to the LDCs because if the IMF controls creation of liquidity within the OECD countries, it will also control how much foreign credit U.S. and other banks can generate.

The Bank of Italy, taking a much stronger hands-on role than they have in recent memory, is drawing up secret reform proposals to be carried out by the Group of 10's March 1984 meeting. These include an agreement for a $3 billion SDR issue by the IMF, which is not intended to increase liquidity, but to give the IMF greater control of world credit flows.

The $3 billion issue would be used to enable the IMF to become an independent world central bank, by allowing the IMF "to fund itself by creating SDRs at will and lending them out to countries in payments trouble instead of relying on subscriptions of national currency from IMF members," the *Times* says. The Italians also want the United States to make the dollar and U.S. monetary policy subservient to the IMF.

U.S. Industry

Metal fastener production endangered

"Six out of every ten bolts and eight of every ten nuts used in American industry were produced abroad in 1982," the Fastener Institute, the industry's trade association, reported Oct. 25. The Institute reports that since Jan. 1, 1981, one American company has gone bankrupt each month, on average, eliminating one-third of American capacity.

Charles Wilson, secretary of the institute, claims that if the United States were faced with a limited war on the scale of Korea, there would not be sufficient capacity in metal fasteners and other metal-working industries to build necessary armaments and equipment.

Debt Bomb

Brazil: IMF is on a tightrope

The depth of the world debt crisis is forcing some recognition of reality in Western Europe. The first objective discussion of the Latin American debt bomb was published on Oct. 25 in the hitherto incompetent left-wing paper, *Liberation*.

In an article titled "Debt: The Brazilian Powder Keg," *Liberation* compares the IMF,

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the big European and American banks, and Brazilian economic leaders to players in a scenario walking a tightrope without a safety net. After the Brazilian congress decided to veto the IMF austerity, says *Liberation*, "this scenario risks ending with everything on the floor. . . .

"One must face up to what is evident," the article continues. "The remedies proposed by the IMF and the big international banks are killing the hen which laid the golden eggs."

Severe cutbacks in imports have already "imperiled many many firms working for export markets . . . precisely the activities . . . which would allow the big Western banks to be reimbursed for their loans."

There are only two solutions, *Liberation* continues: Either the banks continue to lend, but at rates lower than those of world markets, or else they "push the country to declare a moratorium in order to stop the financial hole from getting deeper." Both solutions will encourage other indebted nations to demand the same response. "The attitude of Brazilian bankers appears more and more to be the igniting of the long awaited and much feared world debt bomb."

International Banking

Fed confirms threat to Europeans

"I wouldn't be surprised to see a weak European bank forced into trouble" by the shrinkage of the Eurodollar interbank market during the second quarter, Fed Flow of Funds economist Steven Taylor told *EIR* Oct. 28. Asked about the potential effect of the Brazilian crisis on European banking, Taylor stated, "Who knows, with the way the Brazilians are acting?. . . When I saw Kreditanstalt come out with bad figures recently, I said, 'Well, here we go again.' "

Taylor stated that the Fed figures on Europe confirm those just released by the Bank for International Settlements in Basel. The BIS reported heavy European interbank borrowing during the first and second quarters to fund bad LDC loans. The heavy borrowing was possible, according to BIS figures, only because U.S. banks had shipped $11.2 billion net into the Euromarkets during the first quarter. But this flowdried up during the second quarter, and then reversed to a $3.4 billion return flow back to the United States.

Fed Flow of Funds figures show an $8.5 billion (unadjusted) first-quarter flow of U.S. interbank funds to Europe, and a $4.2 billion reverse flow out of Euromarket into the United States in the second quarter.

Although the third-quarter picture is still unclear, Taylor pointed out that the first-quarter outflow from U.S. banks in any case cannot be repeated. It was during the first quarter that U.S. banks received a massive one-time infusion of $66 billion (quarterly rate) in new deregulated short-term banking deposits. During the second quarter this dropped to $30 billion. As a result, the banks had to cut their export of deposits to Europe and also hold on to more long-term U.S. deposits.

World Trade

Renewed attacks on Japanese industry

U.S. Trade Representative William Brock left for Tokyo on Oct. 26 to demand that Japan cut its exports and open its markets to the United States. Commerce spokesman Joanna Shelton, speaking at Johns Hopkins University's SAIS, stated that the problem is the Japanese are producing too much and too well: "The fundamental concern is that Japan has become such a strong international competitor," she was quoted by the Oct. 27 *Financial Times*.

President Reagan is being pressured by Treasury Secretary Donald Regan and Brock. The latter called for sharp protectionist measures against Japan in an interview with the *Journal of Commerce* on Oct. 26, to demand that Japan force up the yen against the dollar, which would collapse its exports, and back up the dollar-sector LDC debt. Beryl Sprinkel, in House testimony the week of Oct. 24, called upon Japan to "liberalize" domestic capital markets and to "internationalize the yen," which would force Japanese banks to roll over dollar-denominated LDC debt into yen debt, backing the debt bubble with the Japanese economy.

Briefly

● **THE SWISS** Banking Commission is circulating a "hit list of undesireable countries" to whom Swiss banks should not loan, and against existing loans to whom Swiss banks should accumulate emergency reserves, according to the Oct. 27 *Financial Times*. The just-released annual report of the Commission says that Swiss banks "have not remained immune" to the debt crisis.

● **FEWER MERCHANT** ships are now built in the United States than in 15 other countries, led by Poland, South Korea, Brazil, and Spain. The Soviet Union, China, Romania, and India all lead U.S. merchant shipbuilding.

● **THE ASEAN** nations, including Thailand, Malaysia, Singapore, Indonesia, and the Philippines will not participate in the conference on technical development aid scheduled to take place in Sydney, Australia, Oct. 24, according to the *Neue Züricher Zeitung*.

● **CARLO CIAMPI,** governor of the Bank of Italy, told the Forex Club (the exchange operators association) in Venice the week of Oct. 24 that the Craxi goverment is performing well, but its austerity measures are not sufficient. The COL escalator must be cut, and new taxes including increased gasoline prices, have to imposed. Interest rates must not be lowered, he stressed. Industrialists have been calling for cheaper credit.

● **LUIGI SCALFARO,** the Italian Interior Minister, revealed in a late October interview with *Espresso* magazine that the bulk of drug and arms trafficking funds are laundered through gambling casinos. "A civilized nation should shut down all its casinos," Scalfaro stated. Scalfaro recently held a special anti-mafia summit with Milan's magistrates, who told him that Turin attorney general Bruno Caccia was assassinated several months ago by the mafia because he had sent the financial police force to investigate the St. Vincent casino.